

FEASIBILITY OF SOVIET BUDGETARY CONTROLS
AS AN ARMS CONTROL MEASURE

The State Budget as an Arms Control Device

The Soviet State Budget probably provides information that would be useful in implementing any arms control agreement by supplementing physical control measures. In its present published version, however, the budget is devoid of the detail necessary for even a disarmament program conceived in the broadest possible terms. The following breakdowns of Soviet budgetary expenditures planned for 1960 represent the finest degree of detail available, except for further disaggregation of welfare outlays which are not pertinent to the present frame of reference.

Table 1
USSR State Budget Expenditures--1960 Plan
(Billions of Rubles)

Financing the National Economy		327.8
Industry	151.8	
Agriculture	32.3	
Transport and Communications	25.0 a/	
Unspecified	118.7	
Social Cultural Measures		274.4
Education	102.0	
(Of Which: Science)	28.0 a/	
Health	47.5	
Social Welfare	97.9	
Defense		96.1
Administration		11.1
Reserve Funds, Council of Ministers		27.6
Other		34.8
Total Expenditure		744.8
Total Revenue		772.1
Surplus		27.3

a. Estimated on the basis of 1959 plan data.

Budgetary Contr 1 Possibilities Given Complete Disclosure

If the Soviet State Budget were to be made available to the control authorities in all of its existing detail, there would be several expenditure classifications that would have to be carefully observed in order to cover all phases of defense activities. The largest single such item is that carried explicitly as defense in the State Budget,

comprising the appropriation to the Ministry of Defense. This allocation is believed to cover personnel pay and subsistence and general operational outlays of the military. Procurement of both conventional and military equipment and that of guided missiles may be included only in part, if at all. Definitely excluded are such activities as atomic energy programs, military research and development, and militarized internal security forces, all of which would be considered as military outlays in US budgetary accounting.

Another likely location for a substantial amount of direct military expenditure lies in the unspecified allocation of the vote for financing the National Economy. Perhaps half of the planned expenditure for this category in 1960 can be explained in terms of non-military activities. The remaining 60 billion rubles could substantially finance the cost of the conventional equipment procurement, and the guided missile and atomic energy programs. The classification of defense type outlays under an essentially investment expenditure grouping might be rationalized by the inclusion in the Marxian concept of national income of military equipment purchases as the equivalent of machinery purchases by industry.

Lesser defense oriented outlays are financed under other budget votes. The research portion of military research and development is mainly covered by the science allocation under the education breakdown of the Social-Cultural vote. Certain veterans' pensions and disability payments may be financed under the social welfare breakdown of the Social-Cultural vote. Pay, subsistence, and equipment outlays for the militarized components of the internal security police are financed by the allocation to the Ministry of the Interior located under the Other vote of the budget.

The budget contains allocation of an indirect military nature which would be of equal importance in an arms control scheme. Since the budget is the source for financing the bulk of productive investment, allocation for expansion of plants producing military equipment would pass through it. These outlays would be classified under the industry breakdown of the financing the National Economy vote. In addition to capital outlays this category would contain allocations for subsidies and starting-up costs to defense plants.

The size and function of the surplus are puzzling to intelligence analysts. Soviet financial writers assert that the surplus has the anti-inflationary function of offsetting expansion in bank credit. For several recent years, however, the final surplus has been substantially larger than the increase in bank credit, thus providing the financial wherewithal for considerable unstated expenditures. Possibly some defense outlays could be covered under this heading. During World War II the surpluses accumulated during the thirties were expended in support of the war effort.

Non-Budgetary Financial Sources Pertinent to An Arms Control Program

Any agreement to utilize financial inspection in implementing an arms control program should consider two important non-budgetary sources of possible military financing. In 1959 approximately a third of all enterprise profits, nearly 70 billion rubles, were retained by enterprises. These reported profits represent an undisclosed amount of netting of enterprise profits and losses at the sovnarkhoz (State Economic Council) level. The bulk of these retained earnings will be used for capital investment. Conceivably it would be feasible for the Soviet authorities to circumvent a budgetary control mechanism by channelling retained enterprise profits, or even a portion of taxed profits, into a centrally administered pool from which military activities and defense production could be financed. The likelihood of such an evasion of controls would warrant periodic inspection of enterprise and sovnarkhoz accounts, if a foolproof system were desired.

A further alternative means of defense financing lies in the banking system. At the present time the State Bank (the central bank) restricts its loans to short term credit to be used for temporary increases in working capital. During the inflationary financing of the industrialization program in the thirties much of this short term lending was converted to non-repayable grants as a result of wholesale defaults by industrial borrowers. The same policy was followed during the disruptive period of the early wartime years. Presumably the Soviets might again resort to the practice of substituting monetary for fiscal sources of financing for defense purposes should the latter be subjected to international scrutiny.

Verification of Budgetary Controls

In a planned economy of the Soviet type many of the financial outlays in the State Budget will be accompanied by physical plans for production, resource allocation, investment, and labor distribution. Of particular usefulness is the investment plan. As published, the plan classifies capital outlays by totals for broad sectors of the economy and for branches within industry. Sufficient detail is provided in the Seven Year Plan (1958-65) data to permit isolation of totals for investment in defense industry and in military facilities. In the actual planning documents investment is broken down by specific projects, providing all pertinent physical specifications and monetary values. Scrutiny of these detailed investment plans would provide a check on the investment expenditures allotted to defense industry and to military facilities in the budget.

The control documents for allocations of metal, machinery, chemicals, fuels, and other priority resources to industrial and military customers are the material balances of the State Planning Commission. Inspection of these resource input control figures could provide physical clues as to the size and changes in volume of defense production and military procurement.

The planning process also contains comprehensive information as to the distribution of manpower in its labor force balance. Scrutiny of this document would enable inspectors to observe changes in the strength of military manpower.